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Two-level negotiations in a fragmented system: Saudi Arabia's WTO accession

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Saudi Arabia and the WTO: internal fragmentation and external pressure

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Saudi Arabia, WTO negotiations, domestic societal coalitions, rentier state.

The WTO is great for organizing, like a mother. There's a lot of 'I'm tidying your room and keep it that way.' In Saudi Arabia we grew too quickly and we are not organized … We need someone to organize us[1]

Saudi merchant

Introduction

It is one of the less exciting insights of political science that institutional and political fragmentation make swift and coherent economic decision-making difficult (Chibber, 2002, 2004; Haggard/Kaufman, 1995; Tsebelis, 2002). While the present article generally agrees with this finding, it proposes one important, yet overlooked exception to this rule: When external pressure is applied on a polity, internal fragmentation can in fact dramatically accelerate change.

The case on which the argument is developed is Saudi Arabia's accession to the WTO, which represents a particularly clean instance of this mechanism. Saudi Arabia is a paradigmatic capital- and resource-rich "rentier state" (Crystal, 1995; Karl, 1997; Luciani, 1990). As such, it is, on the one hand, strongly dependent on one resource and suffers from a number of administrative and institutional deficiencies (Chaudhry, 1997; Vandewalle, 1998). These include a rather incoherent bureaucracy with limited regulatory powers as well as weak interest group structures in society. On the other hand however, and different from other developing countries, Saudi Arabia enjoys a high degree of economic sovereignty due to its independence from international lenders and strong position towards trade partners.

This means that Saudi economic policies have generally been negotiated in its domestic arena. It was only in the course of Saudi Arabia's negotiations for WTO accession after the mid-1990s that international actors could make direct demands of economic reform towards the Saudi government. And indeed, in the course of post-9/11 skepticism towards all things Saudi, the US as main negotiation partner has exerted unprecedented pressure. This makes for a particularly sharply contrasted comparison of the interaction of domestic reform interests and international conditionality at one instance with mostly domestic negotiations of the same policy issues at previous instances.

I intend to show how specific state structures and state-business relations can have very different outcomes depending on whether international pressure is applied. The argument runs roughly as follows: Historically grown patterns of internal fragmentation in both public and private sector have held up various WTO-related economic reforms in Saudi Arabia as

[1] Cited in Montagu 2001, p. 48.

long as they were negotiated within the disjointed Saudi system, as there were no institutional capacities and no political space for the domestic negotiation of a WTO bargain. Due to the institutional specifics of the kingdom, more than due to "objective" interests of comparative advantage, no strong pro-WTO coalition emerged.

However, after membership application and a number of reform initiatives had lingered for several years, the Saudi leadership realized that US conditions in the membership negotiations would only become harsher. US intransigence played a significant role in enabling a number of reforms which were rammed through in a top-down fashion by the leadership. Institutional fragmentation of interests again played its role, this time preventing an encompassing veto coalition against a comprehensive policy package which was in its substance imposed from outside. WTO conditionality has allowed the locking-in of reforms. Fragmentation of state, business and relations between them can hence mean policy stalemate, but can also make for rapid policy adjustment under conditions of external pressure.

Theory and structure of the article

In its analysis of the interplay between international and domestic policy bargaining, the article aims to contribute to existing debates on trade policy and two-level negotiations. There are two theoretical traditions which deal with the domestic aspects of international trade policy and the "distributional coalitions" involved: "reductionist" economic theories and more context-sensitive institutionalist approaches. The economic theories attempt to explain trade policy interests referring to either comparative advantages of specific factors or specific sectors of production (Mayer, 1984; Rogowski, 1989; Frieden/Rogowski, 1996; Rodrik, 1995).

Following the Stolper-Samuelson theorem of trade theory, the factor-based models analyze the relative scarcity and abundance of factors of production (usually labor, land, and capital) in a given national economy relative to the global economy. The factors which are relatively abundant on the national level will have an interest in trade liberalization, as their price will increase with growing integration into international markets. The reverse applies to domestically scarce factors. Sector-based, or Ricardo-Viner models, by contrast, make the assumption that not all factors are perfectly mobile in the short run, which means that their returns can vary by sector. Immobile factors in import-competing sectors will have an interesting in protection, while those in export-competing sectors will seek free trade. The predictions of the two models are factor- and sector-based trade lobbying, respectively.[2]

Institutional approaches do not necessarily contradict the predictions which economic approaches make on individual interests, but argue that trade policy outcomes cannot be understood without an analysis of interest-aggregation and decision-making mechanisms (Alt/Gilligan, 1994; Goldstein, 1988; Gourevitch, 1986; Haggard/Webb, 1994; Nelson, 1988; O'Halloran/Lohmann, 1994). Unfortunately, most institutional approaches focus on institutional mechanisms in Western democracies.

It is the economic approaches which therefore have more predictions to offer on the Saudi case, as they are deductive and general in nature. The article will hence evaluate Saudi policy-making processes and outcomes against what factor- and sector-based models would make us expect. In the resulting critique of economic approaches, I will liberally draw on general insights from the institutionalist literature to show how these might be complemented to cope with non-Western cases like Saudi Arabia.

Going beyond standard assumptions of institutional models, I will emphasize the institutional origins of perceptions and interests.[3] I will moreover discuss the impact of absent domestic interest-aggregation mechanisms on international trade negotiations. In this context, the article will draw on concepts from the literature on state-business relations in developing countries, which has not yet been linked to international political economy debates. Categories from the state-business relations literature such as associational capacity of business, or trust and reciprocity between state and business can inform institutional analysis of policy-making in non-democratic polities where the Western-oriented institutionalist debate has few specific concepts to contribute (Schneider/Maxfield, 1997; Schneider, 2004; Moore, 2004). As we will see, these categories can explain policy outcomes and the capacity to reach deals better than deductive economic reasoning can.

The specific innovation of this article lies in discussing the ambiguous effects that institutional fragmentation can have on policy outcomes. What is meant by fragmentation? For our purposes, it will denote the existence of separate actors within a larger section of the polity (government, private sector) and the incapacity of these to coordinate policies and

[2] Depending on how intensely they are involved in production structures of import- and export-competing sectors and what their own consumption patterns are, owners of mobile factors in a Ricardo-Viner world join either protectionist or free-trade sector coalitions – in either case, lobbying stays sector-based (Alt/Gilligan, 1994).

[3] For a more historical argument against reductionist explanations of economic and trade policy on other Middle Eastern examples, see Chaudhry (1999).

collective responses. It is in the analysis of fragmentation in international context that the Saudi story, although rather specific, generates counterintuitive and generalizable predictions.

The article will first survey the domestic setting of institutions and interests in Saudi Arabia, covering both government and the private sector, explaining the fragmented nature of WTO debate and WTO adaptation attempts. In its second part, it looks at the broad chronology of international negotiations and analyzes their decisive impact on domestic policies in recent years. The article is mostly based on interviews in Riyadh during field research from 2003 to 2005, as well as official documents and press reports. It does not claim to deliver a comprehensive account of the secretive accession negotiations, but it adduces enough material to make a broad claim about the nature of domestic-international linkages in the Saudi political economy. The accession in November 2005 is taken as cut-off point.

A note on Saudi Arabia's trade position and interests

A capital-rich importer of goods and services for many years, Saudi Arabia has, at least formally, been a relatively open economy for a long time. Capital flows are free and its currency is fully convertible.

There have been a number of formal restrictions on international trade, with protective tariffs for certain industries – up to 100 per cent in some cases, but usually not above 20 per cent (US Foreign Commercial Service, 2004). Certain imports require official licenses, and like in other GCC states, distribution of international goods traditionally has to go through local "agents". Until recently, foreign investment in commerce and a number of other important services such as banking and insurance was strongly limited. Altogether, however, in comparison with Middle Eastern states with longer histories of import-substitution, formal restrictions on trade and services have been modest.

Attempting to diversify its industrial base and to create employment to accommodate its youth bulge, the kingdom has had a number of good reasons for joining the WTO. A main motivation is increased legal security and market access for those of its industries which enjoy international comparative advantages (Wilson, 2004: 76ff; Riyadh Bank, 2005), most prominently energy- and feedstock-intensive sectors like petrochemicals and its associated downstream (Sahlawi; Ramady/Mansour, 2006: 194f.). Saudi Arabia Basic Industries (SABIC), which is 70 per cent publicly owned and nowadays one of the world's leading petrochemical players, needs free access to international markets and security from anti-dumping measures. The effect of WTO membership on Saudi growth is expected to be positive (Chemingui/Safadi, 2005).

Though oil exports still dwarf non-oil exports by a factor of about 8, the latter have increased greatly since the early 1980s. They are more than twice as large than the non-oil exports of any other Arab country, including much more populous Egypt, and are set to increase further (Ramady, 2005: 257f., 276; Wilson, 2004: 81).

[Graph 1 about here]

Saudi Arabia has had an increasing interest in being seen as a serious, credible and accountable international economic player. Since most major economic powers and all GCC states had joined the WTO by 2000, membership became a necessary component of such credibility,[4] and a prerequisite of non-oil diversification (Niblock, 2006: 138; ESCWA, 2001: 62f.; Ramady/Mansour, 2006: 191).

This has been the broad and generally agreed strategic rationale for the Saudi leadership. What about non-state interests in Saudi Arabia? This is the more empirically difficult and arguably more interesting question. In the following, we will discuss what conventional theories of trade would predict about business and labor interests and subsequently compare it with actual politics.

Saudi Arabia seems a more likely candidate for sector-based economic explanations, as "factor specificity" of Saudi private investment is relatively high. Saudi merchants tend to be conservative, and they invest in rather large projects by regional comparison. Most agriculturalists, commercialists, and industrialists are well established in their respective sectors, having put in much of their own wealth and built up managerial structures which are indelibly linked to their own families. Most of the large non-state companies are not publicly listed (Ramady, 2005: chapter 6). The Saudi business environment hence makes sunken investment hard to liquidate.

At least in the short- to mid-term, sectoral interests should prevail. We should therefore expect subsidy-dependent Saudi agriculture to be clearly poised against WTO entry, whereas heavy industry – private petrochemicals in particular – should be strongly in favor of accession due to the large capital resources of large Saudi industrialists and the comparative advantage of cheap energy and feedstock.[5] Collective action for the few large heavy industry investors should be easy (Baldwin, 1985: 12ff; Mayer, 1984). Positions of commercialists and contractors can be expected to be more diffuse, as these are more labor-intensive sectors.

[4] MEED, 8-11-1996, p. 53; various interviews in Riyadh 2003-2005.
[5] Private Saudi capital held abroad has been estimated at up to 500 billion US$. They have become the leading business stratum in the Middle East also in managerial terms; Oxford Analytica, 8-2-2006.

Although expatriate labor in the kingdom is cheap relative to the West, it is expensive relative to some neighboring markets, in which Saudi companies are more likely to compete.

In the less likely case that long-term factor-related interests should prevail, large players in the private sector – who dominate Saudi organized business – should generally be in favor of liberalization thanks to their large capital resources which could be put to good use in heavy industry.[6] Broad-based labor interests are more difficult to deduct. Assuming full factor mobility, one might expect reluctance towards liberalization, as labor in the main competing markets in the Middle East and Asia tends to be even more abundant than in the kingdom.

Domestic Saudi interests: the state

The kingdom would have quite probably found it very easy to join the GATT in the 1980s,[7] when its economy was less open, but the US was much more easy-going on membership and Saudi Arabia was perceived as full ally in the Cold War (Hoekman/Kostecki, 2001: 67). The GATT application was only submitted in 1993, however, and serious negotiations did not start before 1996. At the time, the leadership was moderately optimistic about joining the organization soon. However, the negotiations and the concomitant reforms ran into a number of problems which, as will be argued, primarily reflected the domestic political economy of the kingdom – more than the kingdom's "objective" interests or, at the time, the course of negotiations themselves.

Structure of agencies: fragmented administration

Most of all, the way WTO issues were digested domestically reflected the segmentation of Saudi institutions of government. To understand Saudi policy-making and implementation, it is important to know that Saudi government agencies tend to communicate little among themselves: At the same time as being strongly centralized, ministries and other institutions tend to lead a rather insular existence; horizontal structures of coordination are under-developed.

As I have argued elsewhere, the reasons lie in historical patterns of rapid, oil-based state-building since the 1950s. With the growth of national budgets, government institutions expanded rapidly, often under different political patrons and with little need for regulatory co-ordination, as distribution of oil wealth in one form or another ruled supreme (Hertog, 2005,

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[6] This logic is likely to apply more strongly to diversified groups which are active in several sectors to similar degrees.

[7] Interview with Saudi industrialist, March 2004.

2006b). Institutions were frequently used as tokens in games of power balance among royals (Herb, 1999), while an overarching civil service tradition which could have made for coordinated bureaucratic growth was lacking (Awaji, 1971). Growing oil rents allowed for the sporadic creation of new institutions as reactions to new challenges, without ever leading to the integration of different parts of the bureaucracy. The only common denominator was centralization of ultimate decision-making power in a group of senior royals. A hub-and-spoke system of politics emerged, by default rather than by design: organized around the royal family as arch-distributors, and defined by large-scale employment of redundant and often unmotivated staff in a plethora of different institutions, strictly hierarchical and communicating vertically with their royal patrons rather than horizontally with peer institutions (Binsaleh, 1982; Al-Hamoud, 1991). The large-scale bureaucratic growth and injection of new technocratic talent in the 1970s and early 1980s gave individual institutions and senior commoner administrators more leeway in matters of policy implementation, but changed little about the basically disjointed character of the system (Hertog, 2006b).

Despite the excellence of individual bits of the bureaucracy, the state machinery has suffered from incoherence and inertia in large areas (Al-Saleh, 1994; Al Saud, 1996; Ammaj, 1990; SAGIA, 2003; Senany, 1990; World Bank, 2002). The administration is fragmented on the meso-level, the level of individual agencies. This is not despite of, but rather because of the rigid centralization of the system, which undermines horizontal communication and makes for rivalries below the top level – an outcome of institutional history rather than of current, deliberate control tactics by the leadership.[8] As senior royals seldom get involved in minutiae of policy, and rely heavily on technocrats for specific initiatives, fragmentation is the default pattern of policy-making.

In this disjointed system, WTO issues have typically been pursued only by specific players, especially the Ministry of Commerce. Although there is a sizeable bridgehead of Western-educated technocrats with liberal, pro-trade attitudes in the higher echelons of Saudi bureaucracy, this group is not organized as a political force. Many agencies were fully unaware of new WTO-induced requirements for legal and procedural change. Even in cases where communication took place on a senior level, changes in daily administrative practices in principle required for opening the Saudi economy often got unstuck due to lower-level sluggishness and incapacity. Technical expertise required for the nitty-gritty of WTO adaptation was frequently lacking.

[8] The clientelist character of bureaucratic employment makes a politically autonomous bureaucracy a very remote prospect – never in Saudi history has a political challenge emerged from the ranks of the administration.

As any important decision, the one to go ahead on WTO issues was taken by senior princes. The attitudes towards economic openness vary among the leading royals: Whereas de facto head of government Crown Prince (now King) Abdallah has generally been seen as a driver of reforms, Minister of Interior Prince Naif has been more careful, often trying to tightly control foreign influences.[9] Even if Naif has not been much involved in the minutiae of daily regulation, Naif's senior status has meant that the Ministry of Interior (MoI) has become largely impermeable for other Saudi agencies. Although it may not have worked actively against WTO accession, its strong and largely autonomous role in economic regulation has made wholesale implementation of new rules more difficult.

Officially, the Ministry of Commerce (MoC) under Usama Faqih was tasked with the WTO portfolio. It has not been a particularly powerful player among Saudi institutions. When a number of other agencies voiced specific reservations on economic opening – usually trying to defend their respective sectors[10] – the MoC usually found it hard to force its way.

The defense of agency interests has often trumped the common liberal outlook of a sizeable number of senior bureaucrats who usually have studied in the West and in principle are sympathetic to economic liberalization.[11] Many of the reform issues raised in the WTO context had already been debated domestically for many years, including capital market reform, intellectual property enforcement, competition regulation, bureaucratic capacity-building, foreign investment reform and service liberalization.

However, reform-minded technocrats have been functioning within a hierarchy which does not reward horizontal coordination. Agencies keep their documents secret, communication with other institutions is discouraged, and ministers are usually bent on maximizing their regulatory turf vis-à-vis other institutions. Senior royals, if united, have the power to force decisions, but do not get involved in regulatory nitty-gritty too frequently.

The set-up leaves a lot of space for inter-agency rivalries and incompatible policies. This has created all the more stumbling blocks as US and EU applied a very broad understanding of WTO membership requirements in the negotiations, touching the responsibilities of numerous agencies.[12] Issues included not only trade rules, but also administrative procedures in general, investment regulations and the legal environment (Wilson, 2004: 91f.; Ramady/Mansour, 2006: 192).

[9] For some of Naif's statements cf. Arab News, 25-4-2000.
[10] Interview with senior Saudi government consultant, June 2004.
[11] Some 11.000 Saudi studied in the US towards the end of the 1970s; MEED, 14-12-1979, p. 51.
[12] The bilateral element in the WTO accession process generally leaves a lot of space for political interests, as the insiders are in a strong bargaining position (Hoekman and Kostecki, 2001: 66f).

Other agencies were often unaware of WTO requirements,[13] and Faqih complained that he did not have the full authority for negotiations.[14] When issues like foreign investment regulation, taxation, subsidies or product standards were deliberated in the course of general reform debates in the late 1990s and early 2000s, WTO criteria were often not taken on board. WTO issues were often perceived as a 'Ministry of Commerce problem' within the administration.[15] Inter-agency coordinative committees existed (SAMA, 2003: 47), but patently did not fulfill their function.

Capacity problems and mid-level bureaucratic resilience

The MoC itself, a far less powerful player than MoI or Ministry of Finance, has suffered from its own capacity constraints, typical of the Saudi rentier bureaucracy in general, in which adjustment capacity is low and small-scale resistance to change can be strong. The MoC apparently lacked the capacity to gauge the impact of WTO-induced changes on specific markets,[16] lacking reliable statistical data.

Former bureaucrats as well as Saudi businessmen share the perception that the staff needed to handle the highly technical WTO issues has been lacking in the Saudi administration.[17] Despite overstaffing, and despite an accumulation of general economic expertise since the 1970s, there frequently is a dearth of qualified specialists below the senior level, in the MoC as elsewhere.[18] Even if there is some technical understanding, it is often on a theoretical level, with little grasp of business realities.[19] An internal government memo by a senior advisor in the late 1990s actually recommended that the negotiations be put on hold in order to build up technical capacity.[20] Technical missions to assist on WTO matters (cf. UNDP, 2004) have usually changed little about the lower levels of bureaucracy, where passive resistance to change has been widespread.[21]

WTO-related demands of procedural and administrative reform in particular have become bogged down in various little "fiefdoms" in the Saudi state, including entities such as the customs administration and the judicial system. Contradictory and cumbersome rules, fragmented responsibilities, great de facto discretion for bureaucrats and judges as well as

[13] Interview with senior Saudi government consultant, June 2004.
[14] Interview with functionary of General Investment Authority (SAGIA), May 2004.
[15] Interview with SAGIA functionary II, April 2004.
[16] Interview with Western diplomat I, April 2004.
[17] Interview with former Saudi minister, March 2004.
[18] Arab News supplement, 17-1-2004, pp. 17, 27.
[19] Interview with member of *Majlis Ash-Shura*, April 2004.
[20] Interview with former Saudi bureaucrat, November 2005.
[21] Interview with British diplomat June 2003.

resistance to change have characterized these and other bodies (US Department of State, 2001; ESCWA, 2001: 70ff.; World Bank, 2002; SAGIA, 2003).

Domestic Saudi interests: private sector

Despite its relatively liberal trade policy tradition, the Saudi government appeared structurally unprepared for WTO adaptation. Looking at the Saudi private sector, at first glance the picture appears much more encouraging: many of the large Saudi business groups are among the most impressive in the Gulf and the Middle East region in general, not only in terms of size, but also relative managerial sophistication (Luciani, 2005a, 2005b). Whereas the state has in parts been atrophying, business has been slowly, but gradually expanding – though initially starting as a dependent rentier class, decades of rent recycling have given businessmen deep pockets and have encouraged them to diversify substantially, serving private rather than state demand and contributing the dominant share to national capital formation (SAMA, 2007, table 9-6 in appendix). Saudi banks are among the most professional in the region, and private ventures in petrochemicals have set regional standards. Saudi businessmen have clearly emerged as leaders on the regional stage.[22]

One might have expected Saudi business to play a proactive policy role on WTO issues, whether pushing for rapid accession or organizing articulate policy stances critical of the undertaking. However, as we will see, in more than one way the private sector mirrored the fragmentation of the administration: It has been divided and, more important, under-organized and under-informed on WTO matters. Although there was widespread apprehension over WTO, it hardly congealed into meaningful programmatic statements.

Attitudes in the private sector

Attitudes to WTO among Saudi businessmen have been distributed over a full spectrum of opinion from those open-heartedly embracing international exchange to those calling for protection.[23] Experts expected less competitive businesses to suffer under the opening (Ramady/Mansour, 2006: 193f., Ramady, 2005: 320ff., SAMBA, 2006). However, it has not been clear in the Saudi debate which sectors were perceived as the most endangered and might have the highest interest in protection.[24] Different from what trade theory would make us expect, clear sector- or factor-based interests have not evolved.

[22] Oxford Analytica, 8-2-2006.
[23] Discussion with Saudi diplomat in Oxford, February 2005; Arab News supplement, 17-1-2004, p. 17.
[24] Experts did make tentative sectoral assessments (cf. Ramady, 2005: 320ff.). These were hardly reflected upon in the broader debate, however.

Investors in heavy industry who in principle could have profited from trade liberalization did not act as a lobbying group at any point.[25] Among owners of lighter manufacturing industries which have been protected with tariffs of either 12 or 20 per cent, there were worries about competition,[26] but again, a clear sectoral position does not seem to have emerged. When leading industrialist Abdalrahman Al-Zamil – himself prominently involved in heavy industry – openly asked for infant industry protection and for privileged domestic market access as a reward for employing Saudi nationals, this did not appear to reflect a concerted policy position of Saudi industrialists or a broader lobbying campaign.[27]

Saudi commerce with its trade agency privileges is one sector which could be infringed upon by WTO, and agents are considered to be an interest group.[28] Accounts of how anxious commercialists are towards WTO vary widely, however, [29] and with an exception to be discussed below, there were no concerted demands. The same is true about agriculture and contracting.

Although desultory lobbying attempts on specific tariff issues seem to have happened[30] and there were many 'little letters' and smaller meetings of protest, [31] broader political campaigns have not occurred. The dislike of WTO has not led to the formulation of clear counter-proposals, whether from the private sector in general or from its sub-sectors.[32] Instead, a general, diffuse fear was spread across parts of the private sector that large multinational enterprises might steamroll over local business (Malik, 1999: 259ff.; Ramady, 2005: 316).[33] Some businessmen like Saleh Al-Kamel dressed their concern that economic globalization is a potential danger in "moral" and Islamic language.[34]

The Chambers of Commerce and Industry, quite vocal on other policy questions, have been cautious in their statements on WTO.[35] Business voices clearly in favor of membership were, again, individual ones, like that of Khalid Juffali, senior figure in a large family conglomerate with trade and industry interests.[36] On balance, and different from what factor-

[25] Discussion with Western economic advisor, December 2005.
[26] Interview with SAGIA functionaries III and IV; Western diplomat III June 2004.
[27] Abdalrahman Al-Zamil on the Human Resources Development Forum, 23-25 May 2004 in Riyadh (author's notes).
[28] Interview with SAGIA functionary III, May 2004; Arab News supplement, 17-1-2004, p. 14.
[29] Interview with member of Riyadh Chamber board, May 2004; interview with former Saudi minister, March 2004; interview with Majlis Ash-Shura member II, May 2004.
[30] Arab News, 18-5-2000, 13-4-2004; Saudi Gazette, 16-3-2004.
[31] Discussion with senior Saudi bureaucrat, December 2005.
[32] Interview with senior economist of Saudi bank I, December 2003.
[33] Arab News supplement, 17-1-2004, p. 28.
[34] Gulf Business, May 1998.
[35] A Riyadh Chamber study showing that Saudi will lose from WTO seems to have had no further impact (Malik 1999: 34). For many years, few people turned up at Chamber meetings on WTO issues (ibid: 259ff.).
[36] International Spotlight Saudi Arabia, Washington Post, 10 March 2001.

based models would make us expect, it seems that skepticism was more pronounced than pro-trade sentiment. More important, business players did not act as lobbying group either way.[37] Neither did sub-groups of business engage in systematic lobbying, indicating that the private sector's fragmentation approximated atomization, and therefore was deeper than that of the state, where at least agency-based interests existed.

Quality of information and debate

The most striking feature of the on-and-off debate about WTO membership in Saudi Arabia probably was the low level of information and tangible policy issues. 'In many cases there is sheer confusion'[38]. The diffuse sense of peril among many businesses was based on little knowledge about actual questions involved in trade negotiations.[39] Frequently, technical reforms were seen as something for the government to deal with.[40]

Repeated complaints were made that the government did not provide enough concrete information on WTO.[41] However, the private sector itself was not proactive in researching WTO matters or augmenting generic knowledge about trade negotiations. Apparently the only publication on the matter by early 2004 had been an earlier pamphlet by Adel Faqeh's SAVOLA Group, entitled 'Saudi Arabia and WTO membership: The Promise and the Peril', which took an anti-WTO line.[42] It indicated that membership could lead to forced imports of alcohol into the conservative kingdom and prohibitions on local ownership of broadcast media.

At least the latter statements were part of the 'spectacular amount of disinformation about the WTO'[43]. Rumors spread that the WTO would force the total opening of Saudi borders, free access to the holy sites for non-believers and the replacement of religious Zakat by income tax.[44] The American assurance that such cultural exceptions to free trade would be tolerated did not stop the stories from circulating.[45]

The scare stories appear all the odder considering that the actual danger to the Saudi private sector from the WTO, although hard to gauge in detail, is moderate at most (SAMBA, 2006). Saudi business by and large is relatively less protected and more sophisticated in managerial terms than that in most other Middle Eastern countries. In other Gulf and Middle

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[37] Interview with senior economist of Saudi bank II, December 2003.
[38] Arab News supplement, 17-1-2004, p. 17.
[39] Gulf Business, May 98.
[40] Interview with British diplomat, June 2003.
[41] Arab News supplement, 17-1-2004, p. 28; Saudi Gazette, 4 September 2003; Arab News, 7-9-2003.
[42] Arab News supplement, 17-1-2004, p. 17.
[43] *Ibid.*, p. 13.
[44] Interview with SAGIA functionary I, May 2004.
[45] Arab News, 1-8-2003.

East countries, WTO membership (although admittedly acquired more easily) has not changed very much about business practices. Most Gulf markets are not easy to access without local partners, which means that the latter will not disappear from the scene very easily.

The lack of substantial debate about the WTO somewhat resembles the administration's lack of readiness, and also seems to have institutional reasons, including the non-provision of information by government and the absence of independent research capacity in business associations (cf. Schneider/Maxfield, 1997). Saudi business, as we will see, can act as ad hoc veto player, but less so as integrated policy-maker. Despite managerial maturity, it still lacks independent, coherently organized policy expertise.

There seems to have been a vicious cycle of absent information on the one hand and lack of clear group formation on the other. Historically, most business players in Saudi Arabia have tended to pursue their interests individually through personal links to princes and bureaucrats, apart from specific junctures where collective distributional interests were clearly at stake, such as taxes, budget cuts, and cuts in foreign manpower (Chaudhry, 1997; Hertog, 2005). On more complex issues, it has acted as policy-taker towards the traditionally paternalistic state.

Individual sophistication in the private sector seemed much ahead of its collective maturity as interest group. Affirming an engrained pattern, this left the bureaucracy to deal with policy specifics. Indeed, the most systematic defenders of sectoral interests seem to have been the more efficient parts of the state: Central Bank SAMA defending privileges of domestic banks versus other agencies, and SABIC – as highly export-dependent company (Milner/Busch, 2004: 268f.) – pushing for WTO accession in order to gain secure access to petrochemicals markets.[46] Traditional islands of technocratic efficiency, they had the clearest policy positions based on objective interests.

Deficient public-private interaction

Fragmentation was also the dominant theme in the interaction of government and business on WTO issues. It was not the absence of talk about WTO issues as such which prevented the communication of policy interests – indeed, the topic was debated repeatedly in the chambers, and MoC figures addressed various business audiences.[47] 'Lots of paper'[48] was produced.

[46] Discussion with Western economic advisor, December 2005. Regarding SABIC's pro-WTO stance cf. SABIC, 2004.
[47] Interview with senior Saudi government consultant, June 2004; interview with former Saudi minister, March 2004.
[48] Arab News supplement, 17-1-2004, p. 17.

Deputy Minister Fawaz Alamy claims that he had more than 200 meetings with business representatives.[49] Early on, a group was formed within the Chambers to consult the MoC (SAMA, 2003: 48).

Its activities petered out, however,[50] and the symposia did not significantly clarify interests on WTO. Ultimately, the attempts at public-private consultation were desultory: their outreach effects within the business community were limited, not least due to the low coherence of the private sector as policy actor, which would have made it difficult to arrive at a binding, reciprocal deal (cf. Schneider/Maxfield, 1997).

Just as important, the government seemed unwilling to engage in meaningful dialogue: Discussions were non-committal, ad hoc and limited to small audiences, and there was no firm institutional framework which could have given them any binding character. Most of the substantive content of the membership negotiations was kept secret due to fear of backlashes through the media and business interest groups.[51] The actual gains of WTO membership were little advertised.[52] The absence of clear decision-making structures and responsibilities in and around the government served to underline the insignificance of public-private consultations with the MoC and undermine its role as interlocutor. Trust between state and business and scope for credible agreements were limited.

An absent public

Whereas the private sector was part of a somewhat dysfunctional debate, it appears that the rest of the Saudi public had no debate at all. The lack of public education by the government has been criticized in the press,[53] but the press itself did little to flesh out tangible issues of concern to Saudi citizens. The Majlis Ash-Shura, an appointed quasi-parliament which is supposed to represent public interests, was little more than a passive recipient of the government agencies' WTO policies.[54] This is in remarkable contrast to the public interest which free trade issues have generated in other Middle Eastern and developing countries.

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[49] Arab News, 20 -1-2004.
[50] Interview with senior Saudi government consultant, June 2004.
[51] Interview with SAGIA functionaries III and IV, April 2004; interview with senior economist of Saudi bank II, December 2003.
[52] Interview with SAGIA functionary II, April 2004.
[53] Muhammad Omar Al-Amoudi, Saudi agenda and WTO, Arabview, 5-1-2001; http://www.arabview.com/articles.asp?article=75.
[54] Interviews with Saudi banker, December 2003, former Saudi minister, March 2004. *Majlis* legislation itself had not taken WTO requirements into account sufficiently over the years; interview with SAGIA functionary III, May 2004.

There was no reaction from Saudi consumers, neither in favor of liberalization (as predicted by Grossman/Helpman, 1994) nor according to their respective shares in the factor endowment (as Mayer (1984) argues). Similarly, no labor interests were articulated.

The main reason for absent societal demands is that potentially concerned interests have simply not been organized in Saudi Arabia. Whereas business has been allowed to organize in a corporatist framework, the Saudi distributional system has co-opted and fragmented all other socio-economic interests (Chaudhry, 1997). Independent interest groups have historically been suppressed. Labor in particular is kept out of politics through the large-scale importation of guest workers, who enjoy no political representation and whose presence leads to a segmentation of the labor market between Saudis and expatriates. Recent regime-led attempts to create formal "interest groups" have been anemic and found little resonance in Saudi society (for details cf. Hertog, 2006a).

Chronology of WTO negotiations: crucial junctures and external conditionality

The account so far has been largely static, reflecting the domestic political economy of the WTO accession process. As we will see, however, there have been rather rapid and significant changes on the level of legislation since 2003. To understand these, a chronological overview of negotiations is necessary, with a special focus on the international dimension of the accession attempt as many changes have in the final analysis been driven by US pressure.

Negotiations until 2003 under Usama Faqih

In early 1997, less than a year after negotiations had started, the hope was to gain admission before the end of the year.[55] Negotiations turned out to be more complex than the Saudi side had initially thought, however, not least due to the breadth of issues broached, including services and intellectual property rights.[56] Saudi market access offers drew criticism from the US and other countries. The proposed binding tariff rates were seen as too high, often far above actually applied levels, and important service areas were missing from the offer.[57] It seemed that the Saudi offer had been put together somewhat naively and the MoC had not taken into regard the cross-sectoral nature of WTO negotiations. Many of the concessions demanded would have gone beyond the administrative turf of the MoC, and as outlined

[55] MEED, 17-1-1997, p. 4.
[56] Oxford Analytica, 14-5-1997.
[57] E.g. telecoms. The government was reluctant to put pressure on local interests especially in telecoms and banking (Wilson, 2004: 91). Journal of Commerce, 20-11-1998.

above, other agencies at the time cared little about WTO questions, leaving the MoC with incomplete negotiation authority.

The talks lingered on for several years, one sticking point being the Saudi demand to be treated as developing country, which would give it generous transition phases and prevent internal struggles (Smith/Siddiqi, 2000). The MoC seemed to lack realism at the time, making repeated announcements of impending accession which were denied by everyone else. [58] In summer 1999 it was speculated that if entry would not happen in early 2000, the issue would be downgraded.[59]

The WTO issue indeed seems to have been put on hold on the Saudi side in 2000, as the MoC had apparently exhausted itself and a decision was made to build technical capacity. After the disappointing November 2000 working party meeting (Montagu, 2001: 49), Saudi Arabia 'did not answer the phone for two years' when American negotiators wanted to debate WTO issues.[60] No dates for meetings were set,[61] although a large number of open issues would have been up for debate, including insurance, customs regulations, tariffs, and rules for settling commercial disputes.[62] In November 2001, Deputy Minister Alamy predicted at least two more years of negotiations.[63]

The fight over commercial agencies

Minister of Commerce Faqih appears to have made at least one attempt to break vested interests in the fragmented domestic setting. In late 2000, it was reported that new sponsorship and agency laws were under preparation.[64]

A change in commercial agency regulations was unlikely to revolutionize Saudi commerce: foreign manufacturers usually do not get involved in local distribution and retail, even if they are allowed.[65] Moreover, in many cases the relationship of foreign exporter and local agent/distributor is well-established and many of the large Saudi agents run quite professional businesses.[66] Nonetheless, agencies have high symbolic value for many Saudi

[58] MEED, 12-6-1998, p. 30; 18-9-1998, p. 24; 17-9-1999, p. 9; William M. Daley, Usama Faqih, press conference 16-10-1999 in Riyadh; <http://www.usembassy-israel.org.il/publish/peace/archives/1999/october/me1018a.html>.
[59] MEED, 2-7-1999, p. 3.
[60] Phone interview with Western diplomat II, March 2004.
[61] http://news.bbc.co.uk/2/hi/business/2675579.stm
[62] MEED, 16 -3-2001, p. 20.
[63] Arab News, 5-11-2001.
[64] MEED, 1-12-2000, p. 38.
[65] Interview with senior Saudi government consultant, June 2004.
[66] No one will lose their agent according to a senior businessman; Montagu, 2001, p. 60; Oxford Analytica 2-11-2005.

businessmen, who made their first millions on this basis. There has been a strong feeling among businessmen that agencies should be Saudi (Niblock, 2006: 134).

It became clear from the WTO negotiations that something would have to be changed about existing regulations.[67] A draft bill emerging from the MoC tied the abolition of monopolistic commercial agencies in their established form to new competition regulations. The law went through the Chambers – where it apparently was approved by a functionary who did not grasp its technical implications[68] – and reached the Majlis Ash-Shura.

When it transpired that agencies were about to be 'busted' at least on paper, several large distributors woke up to the challenge and started organizing a counter-campaign. The main players included Abdalrahman Jeraisy, head of the Saudi Council of Chambers of Commerce and owner of several hundred agencies, and Abdallatif Jameel, a powerful Jeddah businessman who among many other things controls the extremely important Toyota distributorship in the kingdom. Jeraisy 'went wild' [69] and concurrently with Jameel organized Chamber delegations which complained to ministers and princes. From his offices, Jameel had a 'grassroots campaign' organized to mobilize concerned businessmen.[70] The law was duly brought down in the *Majlis Ash-Shura*. Apparently Faqih had lacked the senior-level backing to resist the onslaught.[71]

At the time, royal interest in specific WTO-related reforms and technicalities seemed to be muted. Pre-2002, there was only one (characteristically jolty) top-down initiative related to trade liberalization: In May 2001, most Saudi tariffs were unexpectedly slashed to 5 per cent (Ramady, 2005: 318),[72] based on a decision in the Supreme Economic Council chaired by Crown Prince Abdallah. Although the move seems to have been more immediately related to the envisaged GCC customs union,[73] it was expected that the move would help with the WTO portfolio (Wilson, 2004: 32).[74]

Negotiations under Hashim Yamani

Little happened otherwise. However, in a limited cabinet reshuffle in April 2003, Minister of Commerce Faqih was replaced by Hashim Yamani, previously Minister of Electricity and Industry. Yamani, who holds a Harvard PhD in physics, has a much better reputation among

[67] Interview with senior economist of Saudi bank II, December 2003.
[68] Interview with Western diplomat I, June 2004.
[69] Interview with former deputy minister, May 2004.
[70] Interview with Western diplomat I, May 2004.
[71] The law was also said to have been badly constructed in technical terms; Interview with former deputy minister, April 2004; Arab News, 4-1-2004.
[72] MEED, 29-6-2001, p. 26.
[73] Interview with senior Saudi government consultant, June 2004.
[74] Arab News, 28-5-2001.

businessmen as a pragmatic technocrat willing to communicate policies. By the time he was replaced, Faqih was held in low esteem by many in the business community; some accused him of 'disinformation' on the WTO issue.[75]

With Yamani's appointment, many Saudi and foreign businessmen perceived a significant acceleration of progress on WTO matters.[76] In parts, this seems to be due to his better management skills. At least as important, however, the leadership – again, quite probably the Crown Prince, who is said to get along well with Yamani – had apparently decided to force WTO issues around early 2003.[77] Yamani's appointment may have been part of this decision.[78] The kingdom finally seemed to be coming to terms with the external pressure exerted mainly by the US and with the fact that whether fair or not, membership would inevitably come with rather substantive strings attached.

Royal frustration with lack of progress and Crown Prince Abdallah's interest in preserving his reformist credentials are likely to have been the driving factors. Abdallah's international credibility as reformer was at stake, and after much procrastination it was finally understood that WTO demands could not be diminished by sitting out the issue (an otherwise popular Saudi tactic towards domestic problems). It is difficult to explain the precise timing, but the gradually increasing competition for FDI among liberalizing GCC states – all of which had acceded the WTO by 2000 – is likely to have played an important role.[79] The much-touted Saudi foreign investment liberalization initiative,[80] underway since April 2000, lacked credibility without WTO membership.[81] The sudden acceleration of events is not untypical of Saudi policy-making, which can linger for years and lead to sudden bursts of activity.[82] The crucial difference in the WTO context however was that the substance of policies was in effect dictated externally.

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[75] Interview with Saudi banker, December 2003. Robert Jordan, US ambassador in the kingdom from 2001 to 2003, commented that certain senior bureaucrats were less committed to the WTO than Crown Prince Abdallah, probably referring to Faqih; remarks Middle East Policy Council conference, January 2006; <http://www.mepc.org/public_asp/forums_chcs/42.asp>
[76] Arab News supplement, 17-1-2004, p. 29; interview with former minister, March 2004.
[77] Interview with British diplomat, June 2003.
[78] An EU diplomat was cited that 'It was a political decision on the Saudi side to move ahead. Dr. Yamani is firmly in favor of membership. That is a big change.'; Arab News supplement, 17-1-2004, p. 29.
[79] Discussion with long-time advisor to Saudi government, November 2006.
[80] Cf. www.sagia.gov.sa.
[81] 9/11 might have contributed to the general sense that reforms are needed in the kingdom, but as the actual decision to push the WTO negotiations came one and a half years later, a direct link is difficult to establish. Moreover, in Saudi Arabia strategic decisions tend to be rather compartmentalized – social, economic and political reforms proceed at different paces and often reacting to different pressures.
[82] Examples of sudden activism include the above-mentioned tariff reductions, Abdallah's rejection of a "negative list" of sectors barred for FDI in summer 2000, the privatization of Saudi Telecom, and the 2005 announcement of new "economic cities".

The royals had, in principle, been for WTO membership all the way long, but had, as is customary, left considerable scope for the commoner cabinet and bureaucracy to flesh out the details. Now, by way of royal fiat, international demands were rather directly translated into change on the ground, leaving much less scope for inter-agency politics.

The sudden adaptation proceeded in two main steps: first, the kingdom signed its bilateral WTO accession agreement with the EU in July 2003, making substantial concessions on FDI liberalization in services, which had emerged as the biggest issue in the negotiations due to the great potential of finance and telecommunications for foreign investors.[83] This encroached on the turf of line agencies such as SAMA and the telecoms regulator. It appears clear that such steps were only possible thanks to high-level royal backing, in turn induced by the persistence of international demands. The changes cut more deeply than previous domestically negotiated reforms. In the same month, Yamani traveled to Washington to sign a bilateral trade and investment agreement,[84] which served as prelude to the second step: the bilateral agreement with the US. The latter would turn out to be even tougher and wider-ranging than anticipated,[85] deepening the Saudi feeling that the goalposts were moving (Wilson, 2004: 91f.). US demands were wide-ranging, including issues of general legal and bureaucratic transparency, intellectual property rights and further service liberalization.[86]

Further regulatory change since 2003

This delayed the final agreement, but less than one might have expected: By September 2005, the US and Saudi Arabia had struck a (very comprehensive) final deal. By that time, external pressure combined with the early 2003 royal decision to cave in had contributed to several significant attempts of legal reform, which now consistently followed international demands as opposed to intra-government politics. Adaptation measures which should have happened years before – and had often been debated independent of WTO for many years – were tackled under external induced royal pressure and Yamani's leadership.

Few broader measures of legal reform had been taken before 2003. However, significant legislation on intellectual property, trademarks and copyrights was issued in 2003 and 2004.[87] In summer 2003, a new capital markets law was published, providing for the setting up of a formally independent Capital Markets Authority, which came into being in

[83] Saudi Gazette, 30-8-2003; Arab News supplement, 17-1-2004, p. 15. Banking has been one of the main areas the Saudi state wanted to protect (Wilson 2004: 91).
[84] AMEINFO, 6-7-2004; http://www.ameinfo.com/news/Detailed/42278.html; Arab News 9-8-2003.
[85] Oxford Analytica, 2-11-2005.
[86] Arab News supplement, 17-1-2004, p. 29; Financial Times, 26-2-2004.
[87] Arab News, 6-7-2004.

2004, and preparing the ground for the entrance of foreign investment banks. In summer 2003, an insurance law was issued, and in June 2004, a competition law provided for a new competition council, whose members were appointed in October 2005.

Moreover, several foreign banks have been licensed by the Saudi Arabian Monetary Agency since 2003 (SAMBA, 2006: 19), and in 2004, rumor had it that retail trade would be opened up to a maximum foreign ownership of 75 per cent, again encroaching on the established turf of national business.[88] Although Saudi officials are reluctant to admit that the WTO was the driver of such measures, it is generally agreed that these steps helped greatly in WTO negotiations.[89] Tellingly, most of the "touchy" areas of FDI reform like finance and commerce were only addressed once they had become topical in the negotiations.

The final accession deal announced in November 2005 involved substantial concessions in several areas, including 60 per cent foreign ownership in banking and insurance, and 75 per cent foreign ownership of distribution within three years. Through an "importer of record" clause, direct sales to Saudi buyers are now possible before customs (SAMBA, 2006: 9). Numerous technical concessions were made on trade procedures and standards (WTO, 2005a, 2005b).

The legal changes involved a plethora of agencies. Although several of them have run into customary implementation problems, the reform drive was given unprecedented width by the fact that persistent international demands were so comprehensive.[90] As they were directly translated into policy through the basic acceptance of the WTO deal by the royal leadership, interagency politics now mattered much less. Indeed, the fragmentation of the bureaucracy meant that there was little scope for broader resistance during and after the late phase of negotiations. Bureaucratic veto players who may have procrastinated on individual technicalities had received a clear signal from the top that the externally imposed – and externally judged – package would have to be accepted in its totality.[91]

Similarly, there appears to have been little organized business protest against any of the measures. As it was clear that a royal decision to move ahead had been made and WTO membership was seen as inevitable, business remained largely silent on most of its implications. There were some cautiously positive post hoc comments from business after accession had eventually happened – as tends to occur in the kingdom once a decision has

[88] Interview with SAGIA functionary III, May 2004.
[89] Interview with senior Saudi government consultant, June 2004; more candid interview partners admitted a great role of the WTO.
[90] Interview with Western diplomat I, November 2005.
[91] Ibid.

been taken –[92] but no coherent policy statements or analysis of the situation. As the Saudi press complained in early 2004, when the leadership's acquiescence to external demands had become obvious, with few exceptions it was 'an almost impossible task' to get those to talk who were opposed to the WTO – different from the years before, when the debate was disorganized, but some anti-WTO voices were clearly audible. 'It soon became obvious they [anti-WTO businessmen] did not want to raise their heads above the parapet, knowing that the authorities are in favor.'[93]

Do the results all boil down to the timing of royal fiat? Yes and no. Although the decision to move ahead and acquiesce was taken within the royal family, it is important to see that the core ingredients of the subsequent policies had effectively been shaped abroad. It is unlikely that the princes by themselves, with their often limited technical understanding of reform issues, would have devised the comprehensive policy packages of recent years.[94] They usually rely on bureaucrats for fleshing out and negotiating policy specifics – but the bureaucracy is fragmented and its institutional interests are diverse and generally conservative. And judging from the record of other reforms (Hertog, 2005), the leadership, even if initially throwing its weight behind a new policy, would have been reluctant to overcome resistances along the road, however local. In this sense, the royal elite was, despite all its centralized power, an intervening variable transmitting a set of external demands.

No matter how upset Saudis are about the squeezing their old American allies have given them, many freely concede that the WTO process has helped to accelerate a number of reforms within the kingdom.[95] Deputy Minister Alamy himself has explained that WTO membership will speed up privatization (not per se a WTO issue) and lock in reforms.[96] Leading businessmen have stated that the WTO has actually helped the government to push through awkward measures.[97] Indeed, many of the steps taken now had been prevented before through inter-agency cleavages, endless deliberation and lack of business support, notably the opening up of the financial sector and commerce, which had remained on the "negative list" for foreign investors in the course of the 2000 FDI reform.

[92] Arab News, 10-11-2005; 12-11-2005.
[93] Arab News supplement, 17-1-2004, p. 17. This is very much my own experience, too.
[94] A seasoned Western observer involved in the negotiations stressed the crucial role of an external "judge" for keeping the reform package coherent and preventing it from fizzling out between different government agencies; interview with Western diplomat I, December 2005.
[95] Interview with senior Saudi government consultant June 2004.
[96] Arab News supplement, 17-1-2004, p. 16.
[97] Ibid., p. 17.

Against the background of an otherwise fragmented political economy, this is significant: liberal Saudi technocrats by themselves have not been able to engineer a pact for cross-cutting reforms, as negotiation and aggregation mechanisms were lacking and their interests hence were often tied up within their local institutional and patronage structures. With the WTO-induced pressure, translated domestically through a royal decision to move ahead, the liberal technocrats were able to pursue policies which had been languishing in their drawers – and debated in inter-ministerial committees – for many years. Remarkably, some domestic reform measures seem to have been pushed through under the WTO label although they are not strictly linked to the WTO's technical requirements, including reform of the Saudi court system.[98]

Conclusion

The Saudi bureaucracy has been suffering from a combination of low technical capacity and lack of horizontal coordination. The two together have resulted in deficient information on WTO matters and incapacity of the state to internally coordinate the adaptation to WTO requirements. The isolated structure of administrative "fiefdoms" meant that even reform-minded bureaucrats were subject to systemic institutional constraints and could not develop collective political agency.

The private sector was even more fragmented, with the contrast between individual sophistication and lack of collective capacity being even more striking. At one point at least, leading representatives of the commercial sector managed to veto an ill-managed reform project of the MoC. But the resistance was specific and ad hoc, not representing a stable counter-coalition with a programmatic vision. Our theoretical expectation had actually been that commercial interests should be more diffuse than others. The veto lobbying was based not on broad factor-based interests, however, but on a specific issue which was in parts symbolic. Arguably more substantive questions of financial liberalization e.g. saw less coherent lobbying.

In toto, the Saudi system was set for policy drift, as it offered no space and no channels for building broader alliances towards either policy change or coordinated resistance. Levels of trust and reciprocity between state and business were low. This was the situation as long as adaptation measures were negotiated mostly domestically.

However, once the Al Saud leadership had realized that external conditionality would only become harsher with time and decided to adopt external demands wholesale, the effects

[98] Interview with Western diplomat I, December 2005.

of fragmentation reversed: It was the very lack of coherent collective agency in the Saudi system which made for a swift implementation of the formal-legal aspects of the WTO package. As soon as a top-down decision to go along with an integrated pack of external demands had been taken by the leadership (apparently in early 2003), the fragmented bureaucracy fell in line and acquiesced to measures which had been discussed for many years, but never came to fruition domestically. Business similarly acquiesced, the difference being that there had been less effective resistance in the first place.

Theoretical remarks

It is clear that neither factor- nor sector-based economic models had anything to contribute to the explanation of actual outcomes in the Saudi case. This is despite the rather high maturity of the Saudi economy and a number of clear deductive predictions on domestic interests. The predictions were based on a very rudimentary interpretation of the economic models. But it is not clear how more sophisticated deductive approaches should have added any insights on a process which, as we have seen, has been historically and institutionally determined. Business, labor and other potential interests failed to coalesce for concrete social and institutional reasons.[99] As far as concrete trade interests were voiced, these had very little to do with abstract attitudes towards the "level of economic integration" that economic theories of trade policy focus on, but with specific sectoral regulations.

The role of institutions in trade policy is still underexplored (Milner, 2002: 458). Institutional models tend to be either rather unspecific – focusing on very general variables such as "centralization" or "authoritarianism" – or too much geared on the US system or other developed democracies. It is not my claim that my more ideographic and complex explanation of the Saudi case will yield a general institutional model of trade policy. I doubt the latter is possible. My analysis should however yield a number of testable hypotheses for significant aspects of two-level economic policy-making in a range of cases specifically in the developing world.

Rentier fragmentation

Fragmentation of state and society is a specific historical outcome of Saudi rentier history. Although not an automatic result of oil income, a number of Middle Eastern rentier countries with weak pre-oil states such as Qatar, the UAE, Libya and Oman appear to have similar institutional structures (or institutional "legacies"; Goldstein, 1988). Sectoral interests on

[99] Oil price changes of recent years also did not lead to any of the shifts Frieden and Rogowski would predict in tradable/non-tradable sectoral interests (1996: 41f).

complex issues are under-organized, bureaucracies fragmented. In all these cases, we should expect a general weakness of policy coalitions within state and business, which can significantly slow down liberalization measures. At the same time, leaders at the apex of the system should be able to circumvent domestic interests rather effectively and swiftly if they are determined to accede to international economic liberalization demands. The lack of powerful intermediary structures of interest aggregation has a strongly ambiguous impact.[100]

There are many non-rentier reasons for and forms of fragmented polities. Situations in which policy agendas are set by disjointed bureaucracies are arguably more frequent than the ideal-type case in which a unified leadership has a clear and detailed plan of action. The causal mechanisms outlined here should provide useful heuristics for analysis of domestic-international interactions in many developing world cases. It is worthwhile to briefly situate them in the general institutionalist literature on trade.

Effects of fragmentation

It has been argued that a large numbers of parties – i.e. complex ruling coalitions – make it difficult to change the policy status quo (Haggard/Kaufman, 1995; Tsebelis, 2002). Moreover, divided government reportedly increases levels of protection and makes liberalization more difficult (O'Halloran, 1994, O'Halloran/Lohmann, 1994). Absent direct royal intervention, the fragmented Saudi bureaucracy seems to be the functional equivalent of divided government or a fragmented party system, effectively containing a considerable number of veto players.[101] As we have seen, such fragmentation can indeed make it more difficult to change the status quo, as the leadership draws on the bureaucracy for agenda-setting. If external pressure and an external agenda come into play, however, changing the status quo can actually become considerably easier, as counter-coalitions are less likely to be formed. The more fragmented the domestic setting, the easier it should be for negotiators to use the two-level negotiation game to impose an otherwise unfeasible policy package (Evans et al., 1993).[102]

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[100] Once could say that through their state- and clientele-building strategies, regimes have manipulated the structure of interest representation (Nelson, 1988), but on a larger historical scale than envisaged in institutional theories.

[101] Liberalization supposedly is the most successful where trade policy is delegated to insulated bureaucratic bodies (Haggard/Webb, 1994). This is patently not the case if there are other bureaucratic veto players.

[102] The existing debate on two-level games has mostly focused on the full-scale interplay of domestic and international negotiations (Putnam, 1988; Mayer, 1992; Evans et al., 1993). The issue here rather is how exogenous international intervention impacts existing domestic reform negotiations. Putnam has speculated in passing that a "chief negotiator" can use international negotiations to impose domestic policies that would otherwise be unfeasible, but this is not the main focus of the discussion and conditions for this are not analyzed (Putnam, 1988: 457). The comparative insight that if coalitions for change are difficult to organize in a purely domestic context, this will also make veto coalitions less likely and therefore externally imposed change easier to

Fragmentation does not only have an impact on coalitional logic, but also on interest-formation itself. In the Saudi case, most players had few clear interests beyond their defensive reflexes, not least due to the absence or fragmentation of information: The impact of institutional fragmentation on collective interest formation is exacerbated by the costs of acquiring and disseminating information (which are generally high on complex policy matters such as trade; Baldwin, 1985: 9). In the Saudi case a fragmented institutional environment did not only determine the (non-)aggregation of preferences, but also left preferences themselves in a diffuse and ill-informed state, notably in the case of Saudi business with its lack of collective policy-making capacities (Thelen, 1999: 374-377; Milner, 2002: 455). As institutional deficits result in weakness or absence of clearly formulated, rationally derived interests,[103] they leave more scope for "subjective" interests (as in the case of the trade agencies and the generalized unease of business) and, possibly, politics of identity (as in the case of businessman Saleh Kamel's Islamic moralizing).

The problem for Saudi business was not so much that it could not organize the representation of views which in general were clear. It was rather the very lack of an institutional field in which clear views could have been created in the first place through sound information and encompassing debate. Business was internally fragmented, or even atomized on a micro-level. This fragmentation was sustained not least by the fact that it operated in a generally disjointed system that provided few incentives for collective action, as secrecy and meso-level fragmentation of the state did not make the latter a credible negotiation partner. There was no scope for a policy-oriented state-business coalition, as both parties lacked coherence.

Fragmentation and level of institutional and coalitional coherence are useful explanatory factors for policy-making capacity and policy outcomes across different political systems. In the context of state-business relations, the capacities of organized business as well as trust and reciprocity between state and business need to be assessed to determine the capacities of interest-formation, policy coordination and coalition-building (Schneider/Maxfield, 1997). Depending on whether external pressure is applied or not, the coherence of state-business networks can have very different consequences, both preventing cohesive reform coalitions, and preventing veto coalitions against reform. More generally, the state-business literature, not yet linked to IPE, can help to move trade policy analysis beyond

push through is new. In this argument, the policy "win-sets" of two-level games analysis are less important than the more fundamental capacity to formulate and coordinate different interests.

[103] Better availability of information arguably empowers protectionist groups (Goldstein and Martin, 2000). In this sense, Saudi Arabia's liberalizing technocrats have been very lucky.

“conventional” political institutions, which often do not exist or are not relevant in developing countries.

Shifting roles of leaders

The Saudi leadership has played an ambiguous role in this context, which shows that “high” or “low” centralization are not always unambiguously detectable, as the literature might make us expect. On the one hand, Saudi ministries in fact had to negotiate among themselves for a long period, indicating low de facto centralization of policy-making and the ruling elite’s high dependence on technocratic expertise (Nelson, 1988: 825f.). On the other hand, the top-down implementation of the external policy package through the royal family indicated a very high level of centralization. Similarly, the hypothesis that trade liberalization is more successful under authoritarian rule (Haggard/Webb, 1994) does not apply in any straightforward way to the fragmented Saudi case. Institutional fragmentation might be a more useful (and more universal) explanatory variable. The model adumbrated here calls for further systematic research on the comparative dynamics of domestically versus internationally negotiated reforms.

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